

Australian Government  
Safeguard Mechanism Taskforce  
Department of Climate Change, Energy, Environment and Water

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### **Safeguard Mechanism Reforms Position Paper**

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Department of Climate Change, Energy, the Environment and Water's ('Department') consultation on *Safeguard Mechanism Reforms* ('Position Paper').

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC considers the Safeguard Mechanism reforms to be important to the decarbonisation of Australia's economy. The design elements presented here are substantively consistent to the Government's 2022 election policy and the AEC hopes to see it legislated. A baseline and credit scheme has the potential to promote widespread carbon abatement through efficient market mechanisms. The Department has looked to make the design enduring to give captured facilities, as well as government, some long-term certainty about decarbonisation pathways.

Apart from certainty, this enduring aspect is important to ensure Australia meets its national carbon targets in a manner that distributes the burden and costs equitably across sectors. Current decarbonisation efforts have been almost exclusively led by the electricity sector and, in the absence of the Safeguard Mechanism reforms, this is expected to continue. Relying on only one sector to carry the entire decarbonisation journey puts Australia in danger of missing its targets, is not economically efficient, and increases the risks of a disorderly transition in that sector.

The Federal Government's [Australia Emissions Projections 2022](#) highlight the current and future decarbonisation trajectory of each sector.<sup>1</sup> As seen in the table below, the Government is expecting almost all emissions reductions between now and 2030 to come through the electricity sector, which is projected to fall by about 60 percent on 2005 levels by 2030. Despite the enormity of this effort, the estimate may even be conservative given previous forecasts have been revised upwards.<sup>2</sup>

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<sup>1</sup> Department of Climate Change, Energy, Environment, and Water, 'Australia's Emissions Projections 2022', December 2022, <https://www.dccceew.gov.au/sites/default/files/documents/australias-emissions-projections-2022.pdf>.

<sup>2</sup> For example, emissions from the electricity sector in 2020 projections were forecasted to be 111 million tonnes in 2030. This has now been revised down to 79 million tonnes.

**Table 1: Emissions projections to 2035 in the baseline scenario, by sector, Mt CO<sub>2</sub>-e**

Sector	National Greenhouse Gas Inventory		Projection	
	2005	2020	2030	2035
Electricity	197	172	79	66
Stationary energy	82	101	101	94
Transport	82	93	103	99
Fugitives	43	53	55	55
Agriculture	86	73	79	78
Industrial processes and product use	30	32	28	25
Waste	16	13	11	10
Land use, land-use change and forestry	85	-39	-33	-44
<b>Total</b>	<b>621</b>	<b>498</b>	<b>422</b>	<b>383</b>

Meanwhile sectors like stationary energy (predominantly industrial emissions) and transport will see their total emissions increase to become the two largest emitting sectors. The inaction in these sectors has some silver lining as it means there is opportunity for “low-hanging fruit” emissions reductions to be realised.

The Safeguard Mechanism is appropriately targeted towards capitalising on these opportunities, with this objective being expressed in the Position Paper. For example, the Position Paper notes ‘industrial sector emissions are among the fastest growing across the economy’ and the ‘importance of the Safeguard Mechanism reforms providing a policy signal to reduce emissions from these industrial sectors’.

The Department has opted not to target grid-connected electricity generation because there are existing policy signals driving decarbonisation. The AEC supports retaining the electricity generation sectoral baseline. As stated in our previous [submission](#), an electricity grid operates more as a single facility because output from generators is centrally coordinated to meet demand in real time. If these generators are treated as individual facilities, perverse outcomes can result where low emissions intensity generators are discouraged from replacing the output of high intensity generators.

Furthermore, as the sector is on a rapid emissions decline, were it included in the Safeguard Mechanism reforms, its production of Safeguard Mechanism Credits would confuse the scarcity signal needed for other sectors to transition.

### Anti-Avoidance Clause

Noting the above intent expressed in the Position Paper, the AEC acknowledges the need for an anti-avoidance clause to prevent captured industrial facilities from mitigating or avoiding their Safeguard obligations in a manner contrary to the intent of the reforms.

Many conventional electricity generation sites are served by a nearby and dedicated coal mine. It has been common practice for these sites to report their emissions from both the electricity generation and dedicated coal mine as one entity. The anti-avoidance clause would disallow this practice on the basis that the coal mine cannot be considered part of the electricity generation site.

Reporting them as one entity recognises the integrated nature of operation between the coal mine and generation. The AEC considers that a dedicated coal mine is, substantively, part of an electricity business rather than a coal business and reporting the entire operations' emissions as one electricity facility is appropriate.

If the government disagrees with the AEC's view regarding the integrated nature of a dedicated mine and its power station, the AEC requests that the Government only apply the change prospectively. To apply retrospectively would invite uncertainty and introduce investor risk.

It would also seem to confuse Australia's overall emissions data as the current phrasing of the clause would see fugitive and fuel combustion emissions from coal mining removed from grid-connected electricity generation (leading to an artificial sudden drop in electricity sector emissions), while being unclear how and where these now segregated emissions will be reported elsewhere.

The AEC proposes that the anti-avoidance clause be amended to clarify that:

- a) It will not apply retrospectively and existing "one entity" reporting arrangements can remain in place.
- b) Electricity generation sites that can prove that a coal mine is a dedicated and integrated part of their overall operation can continue to apply for a "one entity" reporting arrangement.

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Yours sincerely,

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